Top Glove (TOPG MK)

2QFY26: Propelling Forward Despite Challenges Ahead

HOLD (Maintained)

Share Price	RM0.575
Target Price	RM0.600
Upside	3.45%
Previous TP	RM0.570

Analyst(s)
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Highlights

- TOPG charted resilient revenue and sales volume growth in 2QFY26, but results were below expectations as net profit and margin contracted due to lower blended ASP and weakening forex.
- Management raised ASPs as much as US$7/'000 pieces in April, mainly to offset the spiking raw material prices due to the Middle East tensions.
- While FY26 earnings remain on track for good growth (+15%), risk-reward appears balanced with fair valuations. Maintain HOLD with a higher target price of RM0.60 (from RM0.57).

2QFY26 Results

Year to 31 Aug (RMm)	2QFY26 (RMm)	qoq % chg	yoy % chg	1HFY26 (RMm)	yoy % chg	Comment
Revenue	**1,005.0**	**13.7**	**13.7**	**1,888.6**	**6.7**	Volume (+23% qoq), ASP (-2% qoq)
Operating exp.	(894.2)	16.7	17.3	(1,660.4)	5.6	
EBITDA	**110.8**	**(5.5)**	**(8.5)**	**228.2**	**15.8**	
EBIT	**33.8**	**(16.7)**	**(23.4)**	**74.5**	**60.3**	Declined qoq on weaker margins
Pre-tax profit	**38.5**	**(14.9)**	**(31.3)**	**83.7**	**11.0**	Dragged by lower MYR/USD (-5% qoq)
Tax	(7.3)	13.9	(51.1)	(13.6)	(22.2)	
Net PATAMI	**31.7**	**(17.9)**	**4.5**	**70.2**	**96.4**	Exceptional item of RM4.2m in 2QFY26
Core PATAMI	**27.4**	**(16.2)**	**17.8**	**60.2**	**4,221.2**	Below expectations.
	%	+/- ppt	+/- ppt	%	+/- ppt	
EBITDA margin	11.0	(2.2)	(2.7)	12.1	0.9	Weaker forex and ASP dragged margins
EBIT margin	3.4	(1.2)	(1.6)	3.9	1.3	
PBT margin	3.8	(1.3)	(2.5)	4.4	0.2	
Eff. tax rate	(18.9)	(4.8)	7.7	(16.3)	7.0	
Core margin	2.7	(1.0)	0.1	3.2	3.1	

Source: Top Glove, UOB Kay Hian

Analysis

- **Below expectations.** Top Glove (TOPG) reported 2QFY26 core net profit of RM27.4m (1QFY26: RM32.8m) and higher revenue of RM1.05b (+23% qoq). For 1HFY26, the core net profit of RM60m was below expectations, making up 31% and 36% of our and consensus full-year forecasts.

Key Financials

Year to 31 Aug (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,516.0	3,489.4	4,003.0	4,331.6	4,706.8
EBITDA	107.2	394.9	527.5	630.6	739.6
Operating profit	(180.3)	89.0	212.7	306.1	409.9
Net profit (rep./act.)	(61.8)	109.1	132.4	198.8	271.6
Net profit (adj.)	(61.8)	109.1	132.4	198.8	271.6
EPS	(0.8)	1.4	1.6	2.5	3.4
PE (x)	(75.2)	42.6	35.1	23.4	17.1
P/B (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	15.0	2.3	1.5	1.3	0.4
Dividend yield (%)	0.0	0.8	1.4	2.1	2.9
Net margin (%)	(2.5)	3.1	3.3	4.6	5.8
Net debt/(cash) to equity(%)	1.0	11.1	8.8	8.3	(1.5)
Interest cover (x)	n.a	n.a	18.6	22.2	26.0
ROE (%)	(1.2)	2.1	2.5	3.8	5.1
Consensus net profit	n.a	n.a	167.5	206.4	253.6
UOBKH/Consensus (x)	n.a	n.a	0.8	1.0	1.1

Source: Top Glove, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	**Health Care**
Bloomberg ticker:	TOPG MK
Shares issued (m):	8,018.0
Market cap (RM$m):	4,610.3
Market cap (US$m):	1,176.9
3-mth avg daily t'over (US$m):	2.5

Price Performance (%)

52-week high/low				RM0.9/RM0.6
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(2.5)	(14.2)	(1.7)	(33.5)	(10.8)

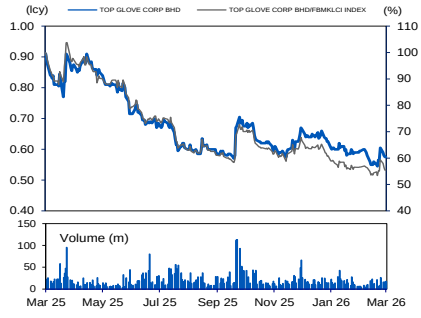
Major Shareholders

	%
Tan Sri Lim Wee Chai	28.95
Central Depository Pte Ltd	15.25
Firstway United Corp	6.92
KWAP	6.39

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	0.6
FY26 Net Debt/Share (RM)	0.0

Price Chart



Source: Bloomberg

Company Description

Latex glove manufacturer

- **Operating parameters were mixed in 2QFY26.** 2QFY26 volume sales strengthened 23% qoq, reflecting improving sales across all regions as customers' restocking cycle accelerated, alongside delivery of some Europe tenders secured earlier. Input costs were also lower as key raw material costs declined (nitrile butadiene -3% qoq; latex concentrate cost -1% qoq). These offset the ASP contraction (-2% qoq) to around US$17/'000 pcs due to intensifying competition from China competitors, in addition to softening MYR/USD rates (-5.9% qoq). Utilisation rate for the quarter was around 89% based on the current effective capacity of approximately 66b pieces annually (1QFY26: 73%).
- **Rising input cost pressures on Middle East tensions, but well offset by sharp ASP hike.** Following Israel and US' strikes on Iran last week, gas and chemical prices have spiked. We assess that TOPG's key raw material costs natural latex and acrylonitrile have seen price increases of 5-10% and 90-100% respectively. Nevertheless, management guided a US$7 ASP hike for April's shipment of nitrile gloves to about US$24/ '000 pieces, which will be sufficient to offset the increase of raw material prices. As such, we estimate that TOPG's profitability per glove and EBITDA margin will be well maintained throughout FY26.
- **Volume sales to sustain at high levels in 2HFY26, allowing 30-40% yoy growth and exceeding pre-COVID-19 levels.** Management estimates that 2HFY26 volume sales may sustain at the current level of 4.5b-4.6b pieces per month. This will allow FY26 volume sales to reach 52b-56b pieces, a 30-40% yoy growth and exceeding FY19's (pre-COVID-19) 52b pieces. Utilisation rate will also see meaningful improvement from FY25's 60-65% to above 80% in FY26, based on a running capacity of 70b pieces by end-26.
- **But profitability margin takes time to recover.** Despite strengthening volume sales, we estimate that profitability margin may take a longer time to recover back to FY19's level. This is mainly due to aggressive competition from China glovemakers and weakening MYR/USD rate. 2QFY26's EBIT and net margin stand at 3.4ppt and 2.7ppt respectively, falling short of FY19's EBIT and net margin of 9.6ppt and 7.6ppt respectively.
- **Positive trend from cash flow and balance sheet items.** We understand that TOPG's current breakeven cost for generic nitrile gloves is around US$14-15/'000 pieces, comparable to its China competitors. Despite earnings facing an uphill battle in recovering back to pre-pandemic levels, we opine that TOPG's improving efficiency and cost base promise a gradual recovery of operating matrixes. With the recent redemption of perpetual sukuk and borrowings reduction, TOPG's gearing ratio has also decreased to 0.03x (FY19: 0.85x). We expect to see stronger operating cashflow and balance sheet in the coming quarters.

Valuation/Recommendation

- **Maintain HOLD with a higher target price of RM0.60** (from RM0.57) despite an earnings cut, as we roll over our valuations to 2027. Our target price is pegged to 22x 2027F PE (-0.5SD below normalised five-year mean).
- Despite an improving outlook from management in the post-results briefing, we remain cautious on fluid industry dynamics as intensifying competition from China glove manufacturers poses mid- to long-term challenges in terms of ASP and margin.

Earnings Revision/Risk

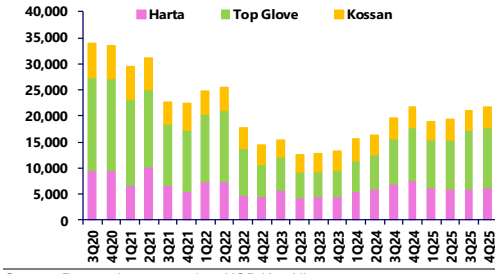
- We have recalibrated our FY26/27 earnings downward by 19%/26% respectively to reflect the weaker-than-expected MYR/USD rate and rising input cost pressures

Assumptions

	FY26F	FY27F	FY28F
Revenue (RMm)	**4003**	**4332**	**4707**
ASP Growth yoy (%)	15%	8%	9%
EBITDA Margin (%)	13.2%	14.6%	15.7%
PAT (RMm)	**132**	**199**	**272**
Growth yoy (%)	208%	50%	37%
Margin (%)	3.3%	4.6%	5.8%

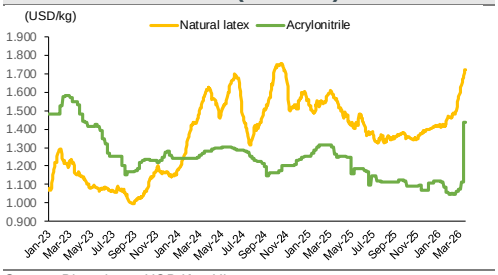
Source: UOB Kay Hian

Malaysian Glove Players' Quarterly Sales Volume (m' pcs)



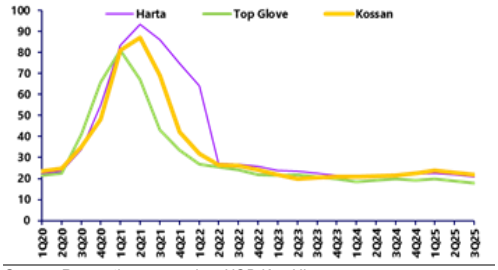
Source: Respective companies, UOB Kay Hian

Raw Material Prices (US$/KG)



Source: Bloomberg, UOB Kay Hian

Malaysian Glove Players' Quarterly ASP Chart (US$' 1,000 pieces)



Source: Respective companies, UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental
- **Water management.** To reduce municipal water consumption intensity by 34% to 0.151m3/1,000 pcs gloves by FY25 with the use of in-house water cycling facilities. - **Energy management.** To reduce electricity and natural gas consumption intensity by 26% and 25% respectively by 2025.
Social
- **Human rights and labour management.** Verified by independent third-party consultant that TOPG is free of all 11 International Labour Organisation (ILO) forced labour indicators.
Governance
- **Gender diversity.** 42% of its board of directors are female.

Source: Top Glove, UOB Kay Hian

Profit & Loss

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Net turnover	**3,489**	**4,003**	**4,332**	**4,707**
EBITDA	395	528	631	740
Deprec. & amort.	306	315	324	330
EBIT	89	213	306	410
Total other non-operating income	61	0	0	0
Associate contributions	(2)	(2)	(2)	(2)
Net interest income/(expense)	6	(28)	(28)	(28)
Pre-tax profit	**154**	**183**	**276**	**380**
Tax	(27)	(50)	(77)	(108)
Minorities	(19)	0	0	0
Net profit	**109**	**132**	**199**	**272**
Net profit (adj.)	109	132	199	272

Balance Sheet

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Fixed assets	3,296	3,850	3,756	3,427
Other LT assets	1,523	1,523	1,523	1,523
Cash/ST investment	298	401	421	404
Other current assets	1,156	1,073	1,122	1,180
Total assets	**6,274**	**6,847**	**6,821**	**6,533**
ST debt	29	29	29	29
Other current liabilities	499	971	794	823
LT debt	798	798	798	298
Other LT liabilities	164	164	164	164
Shareholders' equity	4,756	4,822	4,921	5,057
Minority interest	27	28	30	32
Total liabilities & equity	**6,274**	**6,847**	**6,821**	**6,533**

Cash Flow

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Operating	**328**	**564**	**528**	**602**
Pre-tax profit	154	183	276	380
Tax	(49)	(50)	(77)	(108)
Deprec. & amort.	306	315	324	330
Associates	2	2	2	2
Working capital changes	(79)	86	(25)	(29)
Non-cash items	0	0	0	0
Other operating cashflows	(6)	28	28	28
Investing	**421**	**(200)**	**(231)**	**0**
Capex (growth)	(144)	(200)	(231)	0
Proceeds from sale of assets	29	0	0	0
Others	565	0	0	0
Financing	**(803)**	**(295)**	**(328)**	**(664)**
Dividend payments	0	(66)	(99)	(136)
Proceeds from borrowings	798	0	0	0
Loan repayment	(1,180)	(200)	(200)	(500)
Others/interest paid	(422)	(28)	(28)	(28)
Net cash inflow (outflow)	**(54)**	**69**	**(31)**	**(62)**
Beginning cash & cash equivalent	**353**	**298**	**367**	**336**
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**298**	**367**	**336**	**274**

Key Metrics

Year to 31 Aug (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.3	13.2	14.6	15.7
Pre-tax margin	4.4	4.6	6.4	8.1
Net margin	3.1	3.3	4.6	5.8
ROA	1.5	1.8	2.7	3.7
ROE	2.1	2.5	3.8	5.1
Growth				
Turnover	38.7	14.7	8.2	8.7
EBITDA	268.2	33.6	19.5	17.3
Pre-tax profit	n.a.	18.3	51.1	37.6
Net profit	n.a.	21.4	50.1	36.7
Net profit (adj.)	n.a.	21.4	50.1	36.7
EPS	n.a.	21.4	50.1	36.7
Leverage				
Debt to total capital	17.3	17.1	16.7	6.4
Debt to equity	17.4	17.2	16.8	6.5
Net debt/(cash) to equity	11.1	8.8	8.3	(1.5)
Interest cover	0.0	18.6	22.2	26.0

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